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Supreme Court, U.S.
FILED

MAY 20 2002

OFFICE OF THE CLERK

NO. 01-1468

In the

SUPREME COURT OF THE UNITED STATES

October Term 2001

PHONOMETRICS, INC.,

Petitioner,
v.

HOTEL CORPORATION OF THE PACIFIC
(doing business as ASTON HOTELS & RESORTS)

Respondent.

On Petition for Writ of Certiorari To the United States Court of Appeals For the Federal Circuit

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REPLY TO BRIEF IN OPPOSITION

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18 pp

CORPORATE DISCLOSURE STATEMENT

Petitioner, Phonometrics, Inc., is a Florida corporation. There are no parent corporations. No publicly held company owns 10% of Phonometrics, Inc.

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Order Granting The Defendants' Motions for Attorneys' Fees and Costs Filed September 8, 1999 in *Phonometrics, Inc. v. Hospitality Franchise Systems, Inc., et al.*, U.S.D.C. (S.D.FL.) Case No. 97-8125-Civ-Ryskamp

REPLY TO BRIEF IN OPPOSITION

Aston fails to address the facts of the case in its Opposition. The Petition includes Appendices C through F. The first one shows that Aston had THE ASTON PICKWICK HOTEL in San Francisco in the relevant period (Appendix C). Aston fails to prove that the advertisement was not placed, was not true, or somehow was not what it purports to be. Instead, Aston simply alleges that it has "never done any business in California," has never profited from any California property; never solicited business at a California hotel; never legally done business in California, and never resided in California (Opposition, page 2).

If Appendix C is not evidence that Aston does business in California, then Aston must come forward with evidence that THE ASTON PICKWICK HOTEL was not in business at the time. No such evidence is in the record. If THE ASTON PICKWICK HOTEL was not profitable because it lost money, that is not a defense to patent infringement. An infringer must pay no "less than a reasonable royalty" in damages, whether the infringer has profits or not (35 U.S.C. §284). Lack of profit is not relevant to whether the defense of Rule 12 was waived. If Appendix C is not a solicitation to prospective hotel guests, what is it? No explanation is provided to show that Appendix C is not a solicitation. Whether Aston was licensed to do business in California is likewise irrelevant to the issue of whether the defense was waived. If THE ASTON PICKWICK HOTEL does not reside at 85 Fifth Street in San Francisco, California, there should be some explanation of why not.

Appendix D is the 1989-1990 version of the Telephone Directory for San Francisco. Appendix E is the

same listing for 1990-1991. ASTON HOTELS AND RESORTS lists three hotels in the first part of 1990, and two hotels for the latter part of 1990. It would appear that they were doing business, but if they were not, there should be some explanation why they were not. Whether they were profitable or licensed to do business makes no difference to the issue of whether they were in business. If the ad is not a solicitation for ASTON hotels, it should be explained why not.

Appendix F is the Directory of members of the American Hotel and Motel Association for the relevant period. Three San Francisco hotels are listed, suggesting that ASTON did business in California, solicited business and had contacts with California. If that were not true, there should have been an explanation as to why the ad is not truthful.

It is not enough to state that Phonometrics "presented no evidence to the district court establishing that Respondent had an actual presence" in California. Aston does not say a word about what Appendices C through F show. At page 20 of the Opposition, Aston says that this evidence is "easily refuted" by the testimony that a related company actually owns the hotels that are licensed to use the "Aston" name. Ownership of the hotels is not the test of patent infringement. Rather, the test is whether the hotel "makes uses, offers to sell or sells any patented invention" (35 U.S.C. §271(a)). It is not denied that the hotels use the invention.

The Opposition is equally deficient on the applicable law.

1. PRIOR CASES DO NOT GOVERN WHETHER ASTON TIMELY FILED A RULE 12(b)(2) MOTION.

Pages 4-9 of the Opposition are devoted to two prior cases decided by the Federal Circuit. Neither had anything to do with hotels, and neither had anything to do with a Rule 12(b)(2) motion. The argument is that Phonometrics will lose if the Petition is granted and the case remanded for trial on the merits. Futility of a claim at trial is not a substitute for filing a timely Rule 12(b)(2) motion. Response on the merits will be reserved until trial on the merits.

2. TWO RULE 12 MOTIONS WERE FILED ON BEHALF OF ASTON, AND EACH OF THEM OMITTED RULE 12(b)(2).

In 1996, Red Lion Hotels, a co-defendant of Aston's in the same case, filed a Rule 12(e) motion. Aston filed "as and for its response to the complaint" (Appendix G) a pleading joining in the Red Lion Motion. It is not disputed that Appendix G was filed by Aston. It is a Rule 12 motion that omitted a Rule 12(b)(2) defense. "If a party makes a motion under this rule but omits therefrom any defense or objection then available to the party which this rule permits to be raised by motion, the party shall not thereafter make a motion based on the defense or objection so omitted" (Rule 12(g)). The Aston Rule 12(b)(2) motion was filed May 3, 2000, four years later (Appendix J). It is pellucid that the Rule 12(b)(2) motion was waived as untimely filed.

Aston seeks to excuse its failure to include its Rule 12(b)(2) defense in Appendix G on the ground that the Rule 12(e) defense was "*in the alternative*" (Opposition, page 14, emphasis present). It is still a Rule 12 defense that omitted the Rule 12(b)(2) defense in violation of Rule 12(g).

The other Rule 12 motion filed on behalf of Aston was under Rule 12(b)(6). Aston contends (page 10) that the motion was not clearly a "motion filed under Rule 12." However, no other jurisdictional basis for Appendix H is proposed. The district court did not cite Rule 12 specifically, but he did cite Rule 11 in footnote 1, where he threatened counsel with sanctions if specific allegations were not made in the complaint. The district court then further showed its bias towards Phonometrics in granting awards of attorney fees under 35 U.S.C. §285 in favor of all defendants who requested such an award, including Aston. The attorney fee award was reversed by the Federal Circuit, as was the Rule 12(b)(6) motion.

Aston now says that the 12(b)(6) motion "was clearly not filed by Respondent" (page 10). If it was not filed by Respondent, then how could the district court award attorney fees to Aston as the "prevailing party" under 35 U.S.C. §285? If "[t]here is simply no legal basis" (page 11) for concluding that Aston was the moving party in the 12(b)(6) motion, then there was no legal basis for making Aston the prevailing party for purposes of an award of attorney fees. Aston cannot seek the benefit of the motion to dismiss when the district court carried out its threat to punish Phonometrics by awarding attorney fees, then years later disclaim that the motion was filed on its behalf.

It is undisputed that the Rule 12(b)(6) motion was filed on behalf of the defendants, including Aston (Appendix H). Rule 12(b) requires that "the responsive pleading" of a party must raise defenses, "except that the following defenses may at the option of the pleader be made by motion." One of those exceptions is failure to state a claim upon which relief can be granted. It is thus clear that the motion must be filed by a "pleader," in this case Aston. The

district court did not file the motion "of its own accord" (page 11). Clearly, it was filed on behalf of "pleaders."

The Rule 12(b)(6) motion failed to plead the Rule 12(b)(2) defense. It cannot be filed years later. The argument that Aston was not a "party" to the Rule 12(b)(6) motion (page 12) is disingenuous. Aston was the "prevailing party" under 35 U.S.C. §285 when it was awarded attorney fees for the successful motion to dismiss (Appendix K attached hereto). It unquestionably was a party to the motion.

3. ASTON WAIVED A DEFENSE, NOT PHONOMETRICS.

Finally, Aston argues that it is Phonometrics that has waived reliance on Rule 12(h), which somehow trumps the failure to include Rule 12(b)(2) in either one of its prior Rule 12 motions (page 15). First, there is no support for the proposition that Rule 12(g) and (h) are excused if not raised in the district court. Second, if there were some basis for requiring the district court to rule on the issue, the Federal Circuit would have remanded the case for consideration of the issue. It is not a reason to dismiss an appeal when an issue must be considered by a district court in the first instance. Remand for further proceedings is the remedy if the district court must decide an issue in the first instance.

Remand is usually to decide fact issues, not law issues. Whether or not a waiver occurred is purely a question of law, since there is no dispute that the 12(b)(2) defense was not raised in either the Rule 12(e) motion or the later Rule 12(b)(6) motion. This court is in the same position as the Federal Circuit and the district court to decide that issue.

CONCLUSION

The Petition should be granted, and the case should be remanded with instructions to determine the case on the merits, since four years later is not presenting the issue "early in the action" Wright & Miller, *Federal Practice & Procedure*, §1349.

Dated: May 17, 2002

Respectfully submitted,

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APPENDIX K

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
NORTHERN DIVISION

Case No. 97-8125-CIV-RYSKAMP/VITUNAC

PHONOMETRICS, INC.,
A Florida corporation,

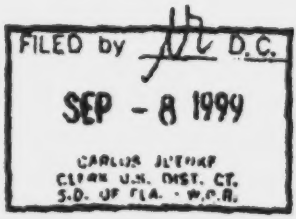
Plaintiff,

v.

HOSPITALITY FRANCHISE SYSTEMS, INC., *et al.*,

Defendants.

_____/



ORDER GRANTING THE DEFENDANTS' MOTIONS FOR ATTORNEYS' FEES AND COSTS

THIS CAUSE came before the Court upon the motion of Red Lion Hotels, Inc. and RHI Hotels, Inc. for attorneys fees and costs [DE 34], filed January 8, 1999, and defendant Aston Hotels and Resorts' motion for attorneys' fees and costs [DE 43], filed February 8, 1999. The motions have been fully briefed and are ripe for adjudication.

1. BACKGROUND

On October 30, 1973, Phillip Graham and Lawrence Reich were issued a '463 patent. The patent claimed a computer device designed for use, for example, in hotels, to track the length and cost of long distance telephone calls made from individual hotel rooms. The device enabled hotel operators to bill guests for their correct share of long distance use without making a separate inquiry for "time and charges" of each individual call from an AT&T operator.

The plaintiff, Phonometrics, Inc., has a long history of bringing unsuccessful claims under the '463 patent. During a hearing held February 13, 1997, it became apparent to this Court that the plaintiff was pursuing a theory fundamentally at odds with the Federal Circuit's decision in *Intellicall, Inc. v. Phonometrics, Inc.*, 952 F.2d 1384 (Fed. Cir. 1992), and this Court's decision in *Phonometrics, Inc. v. Northern Telecom,* Case No. 93-6561-CIV-RYSKAMP. Accordingly, by order filed March 7, 1997, the Court stayed this case pending resolution of the *Northern Telecom* decision by the Federal Circuit.

On January 15, 1998, the Federal Circuit affirmed this Court's decision in *Northern Telecom. See Phonometrics, Inc. v. Northern Telecom,* 133 F.3d 1459 (Fed. Cir. 1998). Thereafter, this Court lifted the stay and considered the plaintiff's claim.

This Court found that, through the *Northern Telecom* and *Intellicall* decisions, the Federal Circuit effectively defined the scope of claim 1 of the plaintiff's '463 patent. In particular, the Federal Circuit explained that the relevant portion of claim 1 of the '463 patent requires a "call cost register means, including a digital display, for providing a substantially instantaneous display of cumulative call cost in dollars and cents." *Northern Telecom*, 133 F.3d at 1464. In *Northern Telecom*, the Court explained that the term "substantially instantaneous" means that the "register displays cumulative costs as they accrue, in real time, and not only once the call has ended." *Id.* at 1465. Moreover, the Court in *Intellicall* had previously established that the term "digital display" means a visual display and not machine readable information. *Intellicall*, 952 F.2d at 1387-88.

Therefore, this Court found that in order to state a cause of action for infringement of claim 1 of its '463 patent, the plaintiff must allege that the defendant's call cost accounting equipment:

(1) displays cumulative costs in real time as they accrue; and

(2) displays these costs on a visual digital display.

The plaintiff's complaint did not make these allegations. Accordingly, this Court dismissed the plaintiff's complaint with leave to amend.

Rather than amend its complaint to state a valid patent infringement claim, the plaintiff appealed this Court's order dismissing the complaint with leave to amend to the Federal Circuit. Accordingly, this Court entered Final Judgment in favor of the defendants. Defendants Red Lion Hotels, Inc. ("Red Lion"), RHI Hotels, Inc. ("RHI") and Aston Hotels and Resorts ("Aston") now move for an award of attorneys' fees and costs.

II. LEGAL STANDARD

Under the patent laws, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. Generally, an award of fees and costs in a patent case must be the exception and not the rule. *See Milgo Elec. Corp. v. United Bus. Communications, Inc.*, 623 F.2d 645, 667 (10th Cir. 1980), *cert. denied*, 449 U.S. 1066 (1980); *Uniflow Mfg. Co. v. King-Seeley Thermos Co.*, 428 F.2d 335, 340 (6th Cir. 1970), *cert. denied*, 400 U.S. 943 (1970). Where a party makes a colorable, albeit weak, argument that was not raised in bad faith," the court should not grant attorneys' fees. *TVI Energy Corp. v. Blaine*, 806 F.2d 1057, 1061 (Fed. Cir. 1986). Conversely, when the claim is "clearly hopeless and unquestionably without any possible basis in fact or law," the court has discretion to award costs and fees. *Chemical Engineering Corp. v. Marlo, Inc.*, 754 F.2d 331, 335 (Fed. Cir. 1984). *See also Eltech Sys. Corp. v. PPG Indus., Inc.*, 903 F.2d 805, 811 (Fed. Cir. 1990).

("Where . . . the patentee is manifestly unreasonable in assessing infringement, while continuing to assert infringement in court, an inference is proper of bad faith, whether grounded in or denominated wrongful intent, recklessness, or gross negligence.")

III. DISCUSSION

A. Is this an Exceptional Case?

The patent statutes, by 35 U.S.C. § 285, permit a court to award reasonable attorneys' fees to the prevailing party in cases, *inter alia,* of bad faith litigation. Section 285 states, "[t]he court in exceptional cases may award reasonable attorneys' fees to the prevailing party." In *Eltech*, 710 F. Supp. 622, 636 (W.D. La 1988), *aff'd,* 903 F.2d 805 (Fed. Cir. 1990), the court explained that "the filing and maintaining of an infringement suit which the patentee knows, or on reasonable investigation should know, is baseless constitutes grounds for declaring a case exceptional under 35 U.S.C. § 285 and awarding costs, attorney fees and expenses to the accused infringer." In affirming the district court in *Eltech,* the Federal Circuit stated:

> Where, as here, the patentee is manifestly unreasonable in assessing infringement, while continuing to assert infringement in court, an inference is proper of bad faith, whether grounded in or denominated wrongful intent, recklessness, or gross negligence.

Eltech, 903 F.2d at 811.

This Court has previously awarded attorneys' fees to the prevailing defendants in *Phonometrics v. Northern Telecom,* Case No. 93-6561-CIV-RYSKAMP (Order Granting Motion for Attorneys' Fees and Costs, filed August 12, 1998), and *Phonometrics v. Tadiran Electronic Industries, Inc.,* Case No. 94-7108-CIV-RYSKAMP (Order Granting Attorneys' Fees and Costs, filed June 15, 1998). As explained in those orders, on the basis of the Federal Circuit's decision in *Intellicall,* the plaintiff knew or upon reasonable investigation should have known that its claims were baseless. The *Intellicall* Court rejected the plaintiff's interpretation of its patent and instead interpreted the patent as only covering "a device that visually displays the cost of a call to a human being as the information is being collected" and provides "an instantaneous digital display of cumulative call cost in dollars and cents." *Intellicall,* 952 F.2d at 1387-89. This Court concluded that the plaintiff's claims were brought in bad faith because the plaintiff either knew or upon reasonable investigation would have learned that the defendants did not have call cost accounting equipment which provided an instantaneous cumulative display of the cost of the call during the call.

The same reasoning applies with equal force in this case. Moreover, the fact that the plaintiff failed to amend its complaint to allege that the defendants' call cost accounting equipment met the limitation of its claim as construed by the Federal Circuit confirms that the plaintiff's claim was brought in bad faith. Accordingly, the Court will award the defendants their reasonable attorneys' fees and costs incurred in defending this case.

B. Reasonableness of the Fee Requests.

The Eleventh Circuit's opinion in *Norman v. Housing Authority,* 836 F.2d 1292 (11th Cir. 1988), spells out the steps a district court must take in determining the reasonableness of requested attorney's fees. "[T]he starting point in any determination for an objective estimate of the value of a lawyer's services is to multiply hours reasonably expended by a reasonable hourly rate." *Id.* at 1299 (*citing Hensley v. Eckerhart,* 461 U.S. 424, 433 (1983)). The party requesting fees bears the burden of establishing what is the reasonable hourly rate, which is "the prevailing market rate in the relevant legal community for similar services by lawyers of reasonably comparable skills, experience, and reputation." *Id.* at 1299 (citations omitted). "The next step in the computation of the lodestar is the ascertainment of reasonable hours." *Id.* at 1301. "[E]xcessive, redundant or otherwise unnecessary hours should be excluded from the amount claimed." *Id. (citing, Hensley,* 461 U.S. at 434).

Defendant Red Lion seeks $23,330.75 in attorneys' fees and $1206.06 in costs. Defendant RHI seeks $12,309.00 in attorneys' fees and $1206.06 in costs. Defendant Aston seeks $37,746.90 in attorneys' fees and $2,585.05 in costs. The Court has reviewed the billing records submitted by the defendants and finds that the fee requests are reasonable. In particular, the Court finds that the hourly rates charged by the defendants' attorneys reflect the market value for the services provided. Moreover, the Court finds that the time expended defending this litigation was reasonable. Finally, the Court finds that the costs requested are reasonable.

IV. CONCLUSION

THE COURT has considered the motions and the pertinent portions of the record, and being otherwise fully advised in the premises, it is

ORDERED AND ADJUDGED that:

1) The motion of Red Lion Hotels, Inc. and RHI Hotels, Inc. for attorneys' fees and costs [DE 34] be, and the same is hereby GRANTED. Defendant Red Lion Hotels, Inc. is awarded $23,330.75 in attorneys' fees and $1206.06 in costs. Defendant RHI Hotels, Inc. is awarded $12,309.00 in attorneys' fees and $1206.06 in costs.

2) Defendant Aston Hotels and Resorts' motion for attorneys' fees and costs [DE 43] be, and the same is hereby GRANTED. Defendant Aston Hotels and Resorts is awarded $37,746.90 in attorneys' fees and $2,585.05 in costs.

DONE AND ORDERED in Chamber at West Palm Beach, Florida this 8th day of September, 1999.

KENNETH L. RYSKAMP
UNITED STATES DISTRICT JUDGE

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